Ontario
Energy
Board

Twenty-fifth Anniversary
ANNUAL REPORT

Fiscal Year Ended — March 31, 1985

86-01604/

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Ontario

Energy
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Minister

Ministry
of
Energy

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September 30, 1985

To The Honourable Lincoln M. Alexander

Lieutenant Governor of the Province of Ontario

MAY IT PLEASE YOUR HONOUR:

I take pleasure in submitting the Annual Report of the Ontario Energy Board for the fiscal year ended March 31, 1985.

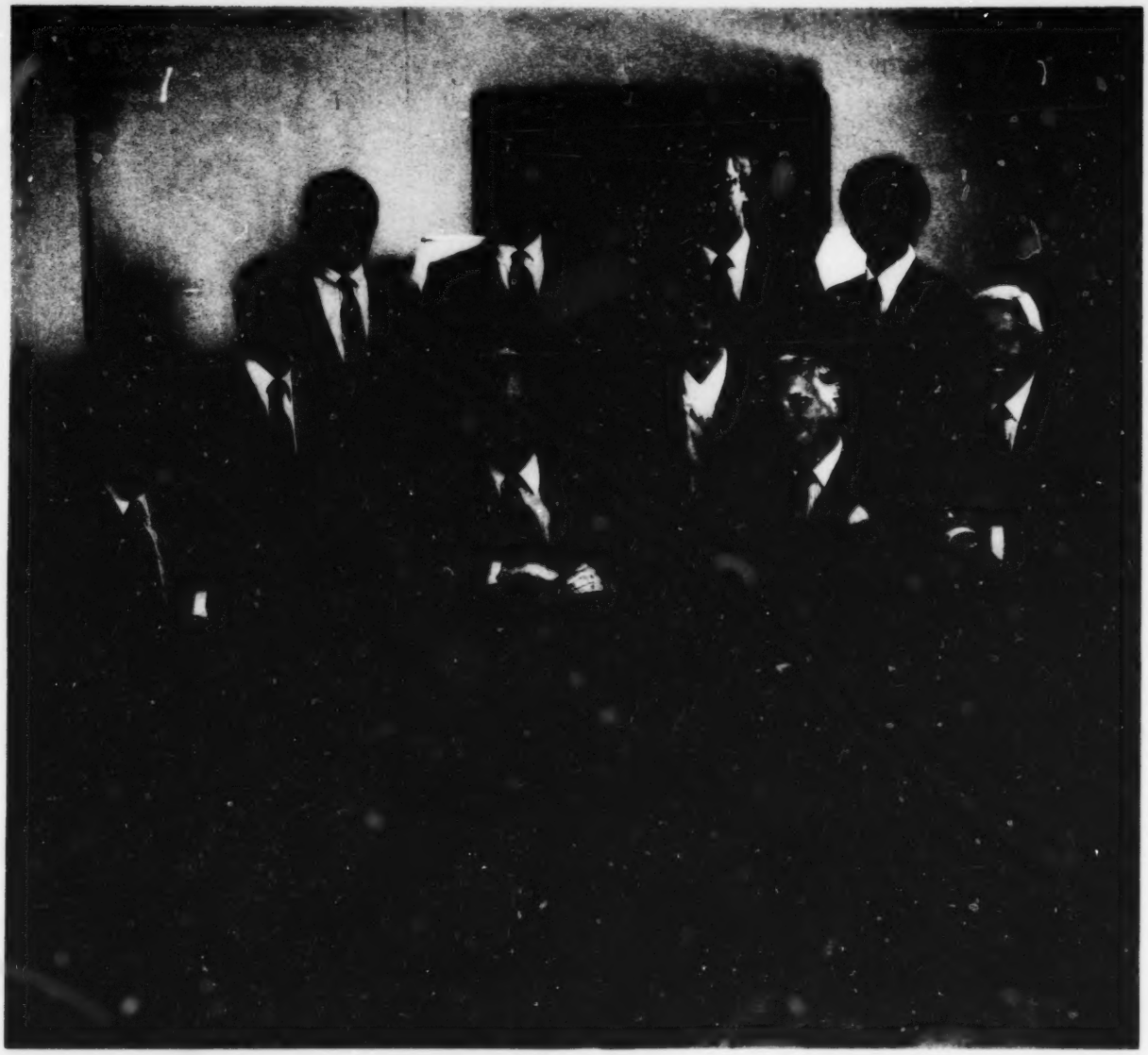
This year marks the twenty-fifth anniversary of the Board since its creation in 1960 under the Ontario Energy Board Act. This special edition of the Annual Report commemorates these twenty-five years of service in the Province of Ontario.

Respectfully submitted,

Vincent G. Kerrio

Vincent G. Kerrio
Minister of Energy

MEMBERS OF THE ONTARIO ENERGY BOARD



From left to right: *Harvey R. Chatterson, John C. Butler, Patrice E. Boisseau, Richard R. Perdue, Orville J. Cook, Bunli Yang, Donald H. Thornton, Robert W. Macaulay, Marie C. Rounding, Denis A. Dean.*
Absent: *Robert H. Clendining, immediate past Chairman, Ian C. MacNabb, immediate past Vice-Chairman, John D. McFadyen, Member.*

MESSAGE FROM THE CHAIRMAN

Twenty-five years ago, the Ontario Energy Board Act was enacted by the Ontario legislature.

It is a time to look back, just as it is a year to take stock of where we are heading in the future.

In 1960 natural gas deliveries to Ontario from western Canada were beginning to escalate. Ontario Hydro was working very hard to keep up with demand while developing the last of its major hydraulic sites.

When the Ontario Energy Board Act was introduced, the natural gas utilities had misapprehensions about the widespread regulatory powers of the Board and the creation of the new Ministry of Energy Resources. Through patience and understanding, the regulated industry and the Board have developed an excellent working arrangement based upon mutual respect for the task of the other.

During the early and even middle years of its life this Board struggled with a number of problems ranging from inflation to regulatory lag. These problems were compounded by the major changes that were occurring in the energy and economic environment. Nothing seemed to stay put for more than a moment.

During the late 1960's and early 1970's as the oil crisis developed in the Middle East, as natural gas prices and inflation soared, as Ontario Hydro turned to nuclear generation and as the public became conservation conscious, the challenges for distributors and regulators multiplied and diversified. Legislative changes were made to adapt to the new economic environment.

During these years, this Board decided on hundreds of natural gas applications and conducted over a dozen major reviews of Ontario Hydro rates. The Board has reported to the Lieutenant Governor, the Minister of Energy and the Minister of Natural Resources upon a substantial array of energy related matters. These years have provided the Board with a wealth of experience upon which the future can be built.

We believe that the Government, the industry and the public will be able to rely on this Board to carry out the public duties entrusted to it. A strong nucleus of resources and expertise is in place to handle whatever duties are given to us by the Legislature.

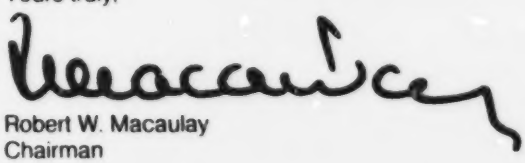
Our facilities have been greatly improved. A working public library and reference section has been added and the expertise of the staff strengthened. The Board's organization has been restructured with the addition of a new computer and data bank so that we can perform more efficiently internally and better monitor the performance of natural gas utilities. The Board co-sponsored the creation of the Canadian Conference of Administrative Tribunals because we believe that administrative boards have a key role to play in the future and can learn from each other.

In the next decade, we expect many changes in our regulatory environment that could well make this period different from any period faced by this Board or any other Board in North America before.

Energy shortages have turned to excess supply and capacity. There is a move away from a tight regulation of rates and conditions of service of all consumers to deregulation in some industrial consumer sectors. This may lead to producer-distributor and producer-consumer alliances. The Board's role may well change from a "hearing forum" to one of administering certain aspects of the industry. Whatever road this Board does or does not take, it is clearly no longer adequate for this Board merely to respond to what is presented in evidence in the hearing room.

Whether this Board will be asked to assume greater or less responsibility is a matter that the Government will decide. But as this Report indicates, the Board is positioning itself to fulfil whatever role the Government assigns to it and looks forward to the next twenty-five years with confidence.

Yours truly,



Robert W. Macaulay
Chairman

MANAGING ENERGY IN ONTARIO

The foundation of the economy and the comfort and well being of the Province of Ontario rests fundamentally on the supply of energy at reasonable prices.

It is impossible to conceive of a province like Ontario, with a high standard of living and reasonable levels of production and employment, without an abundant and reliable supply of low cost energy.

A slight change in energy prices can turn black ink to red for industry and alter the economic prospects of the regions in which it is located.

Energy distribution and pricing has to be properly managed. Regulators and administrators like this Board face a number of challenges in the next decade.

One challenge regulators and utilities already face is the question of market share. Natural gas utilities have never competed directly in Ontario. Regulation prevented free competition that would have resulted in redundant construction and higher costs for the natural gas consumer. But there are other forms of energy competing against each other for new customers in a relatively mature and static market. Close to 40 percent of the energy consumed in Ontario comes from oil, 31 percent from natural gas, 16 percent from electricity, nine percent from coal and four percent from other sources. At some time or another, depending on the circumstances in the market, these forms are all natural competitors.

This Board is constantly faced with the larger question of the roles of these forms of energy in Ontario and how the needs of Ontario's economy can best be served by them. Wasteful and expensive competition can be avoided if some attempt is made to 'rationalize' the supply and distribution of energy in this province.

The utilities are in a quandary about what to do with excess capacity, particularly during off peak periods. Utilities face another challenge and that is to shape consumer demand, shifting it away from peak to off peak periods. An optimum match of the customers' needs with the utilities' needs should ultimately mean lower costs for the customer. Regulators have a responsibility to ensure stability in prices and reliability of service but must also acknowledge the importance of flexible rate design and incentive programs to allow a utility the opportunity to meet its revenue requirement while meeting customers' needs.

Deregulation in the energy sector is another challenge facing regulators and utilities in the coming decade. The advent of deregulation will not necessarily mean less regulation but rather different ways to ensure that affordable prices are available to users. Regulators may allow utilities greater freedom in determining rates for industrial and commercial customer sectors.

ROLE OF THE ONTARIO ENERGY BOARD

The Board essentially has four major duties:

1. To fix the rates of natural gas utilities.
2. To review rate proposals of Ontario Hydro.
3. To report on references.
4. To administer certain Legislative Acts.

1. FIX RATES OF GAS UTILITIES

The rates which the gas utilities charge to their customers must be approved by this Board before they go into effect. The Board has the authority to require each utility to come before it from time to time to justify a change in rates or the continuation of a rate which may then be in effect. Rates are to be "just and reasonable" for both the customers of a utility and its shareholders who must have the opportunity to earn a fair return on their investment. The Board also considers the quality of the service which gas companies provide to their customers.

This type of regulation is common in North America where a gas utility is given a designated service territory within which it has no competition from another gas distributor. Regulation is thus created to be sure that the utilities charge reasonable rates and provide safe and reliable service.

A major gas rate hearing takes the staff, and a panel usually of three members hearing the case, approximately two or two and a half months in preparation, approximately three weeks in the hearing and an additional two months to write the decision.

2. REVIEW RATE PROPOSALS OF ONTARIO HYDRO

Whenever Ontario Hydro proposes to change its rates it must submit such a proposal to the Minister of Energy who then refers it to this Board. The Board reviews Ontario Hydro's bulk power rate proposals (wholesale rates to municipalities and certain industrial customers having an average power demand of 5,000 kilowatts or more). The reference from the Minister does not usually lead to as broad a consideration as that for a gas utility application because certain elements are excluded such as Ontario Hydro's system expansion program. The Board's recommendations are not binding on Ontario Hydro. Ontario Hydro may or may not choose to implement the Board's recommendations.

Preparations for a Hydro rate hearing continue throughout the year and intensive staff work begins in February. The hearing commences in June and runs about four weeks. Panel members and staff take another two months to prepare the Board's report.

3. REPORT ON REFERENCES

From time to time, the Lieutenant Governor in Council, the Minister of Energy or the Minister of Natural Resources may refer a matter to the Board that requires a public hearing and a Board report. These references normally concern matters of energy and generally attract widespread public interest. Public hearings permit the presentation of evidence and argument by individuals, public interest groups and the industry under an informal but controlled environment. The Board report is only advisory in nature.

References as a rule take some two months of intensive preparation and may take up to eight weeks in hearings, and two months to prepare the report. Normally three members of the Board sit on these references.

The Board may also conduct generic hearings on matters under its own jurisdiction. In 1984, a hearing dealt with the public participation in our hearing process and the awarding of costs either prior to the hearing, during the hearing or subsequent to the hearing. Decisions on generic hearings take the form of a report.

4. FUNCTIONS UNDER CERTAIN LEGISLATIVE ACTS

In addition to the Ontario Energy Board Act, the Board has jurisdiction arising from provisions in several other statutes (see "Jurisdiction of the Board"). All of them address the regulation of energy-related matters. Most of them are related to the activities of natural gas utilities. The Board deals with a number of matters arising from these statutes in particular The Petroleum Resources Act and The Municipal Franchises Act. Public hearings are scheduled where there is a statutory requirement. The time involved in these matters varies with each case.

JURISDICTION OF THE ONTARIO ENERGY BOARD

The Board's jurisdiction is both regulatory and advisory and arises from the Ontario Energy Board Act and the provisions of several statutes enumerated below.

UNDER THE ONTARIO ENERGY BOARD ACT

Approves rates and charges for the sale, distribution, transmission and storage of gas.

Ensures compliance by gas utilities with the Uniform System of Accounts.

Grants leave to construct pipelines and related facilities.

Grants authority to expropriate land for pipelines and related facilities and authorizes pipelines to cross highways, utility lines and ditches.

Recommends to the Lieutenant Governor in Council designated gas storage areas, authorizes their use and determines compensation payable to landowners.

Approves gas storage agreements and permits a transmitter or distributor to use the empty space of a storage company.

Unitizes the interests in gas and oil spacing units and pools.

Reports to the Lieutenant Governor in Council on applications by a utility to sell its assets or amalgamate with another utility and on applications by persons to acquire shares of a gas utility which would result in a holding of more than 20 percent of such shares.

Reports to the Lieutenant Governor in Council on energy matters referred to the Board.

Examines and reports to the Minister of Energy on Hydro rates and rate-related matters, pursuant to references from the Minister.

UNDER THE MUNICIPAL FRANCHISES ACT

Approves the terms of by-laws granting a utility a franchise to supply and distribute gas to a municipal corporation and renews the terms of such franchises.

Grants certificates of public convenience and necessity to construct works and to supply gas in municipalities.

UNDER THE PETROLEUM RESOURCES ACT

Advises the Minister of Natural Resources on applications for a licence to inject, store or remove gas and other related permits and licences.

UNDER THE PUBLIC UTILITIES ACT

Rules on municipal claims that a utility has contravened municipal by-laws prohibiting the distribution and sale of gas containing sulphuretted hydrogen.

UNDER THE ASSESSMENT ACT

Decides whether certain gas pipelines are transmission lines for assessment purposes.

UNDER THE TORONTO DISTRICT HEATING CORPORATION ACT, 1980

Fixes steam rates for certain customers of the Toronto District Heating Corporation, formerly the Toronto Hospitals Steam Corporation, upon appeal by the customer.

ORGANIZATION OF THE ONTARIO ENERGY BOARD

LOCATION

The Ontario Energy Board occupies two floors in a downtown Toronto office on Carlton Street. The office has two large public hearing rooms, a reference library, meeting rooms, computer facilities and staff offices. Public hearings are sometimes held outside Toronto at locations convenient to the public.

BOARD MEMBERS AND STAFF

The Chairman and Board members are appointed by the Lieutenant Governor in Council. The Chairman was appointed for a five year term and members are usually appointed for three years. The Board, currently consists of nine members, including lawyers, engineers, economists and accountants.

The Board employs close to 30 full-time staff, including support staff that have special or technical knowledge in matters relating to Board hearings. Legal counsel are engaged to conduct major hearings and the Board frequently retains outside consultants to advise and testify during the proceeding.

WORKLOAD

The Board dealt with over 100 applications or references in the year. Each application was different and put varying demands on the time and resources of Board staff. Applications from utilities ranged from a simple request to adjust an internal accounting procedure to a major construction project which affected natural gas rates for all its customers, or a major application to adjust rate levels and rate structures. Each matter was handled individually, and the coordination and scheduling of these various applications was carefully planned.

Work on a major application usually starts two or three months before a hearing. For rate applications, a utility submits detailed financial data supporting its request for a rate increase. Ontario Hydro alone submits about 5,000 pages of evidence that includes highly technical and statistical data. This material is reviewed by Technical Services staff to ensure it is accurate and up-to-date. Interrogatories are prepared by staff if more information is required or the data already submitted is incomplete. During a rate hearing, a utility may receive in excess of one hundred interrogatories from Board staff and intervenors.

COMPUTER SERVICES

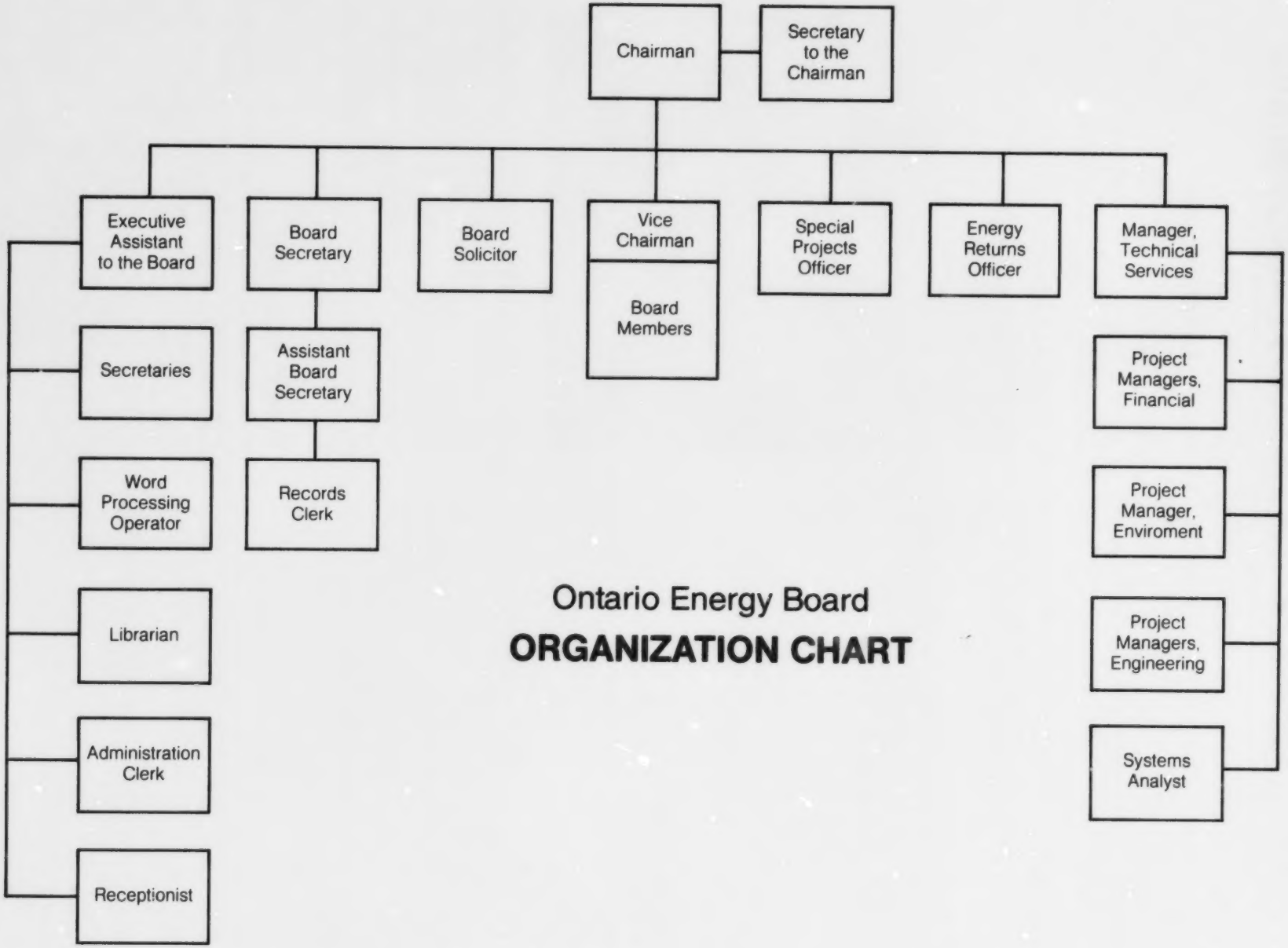
The Board acquired a computer data processing system to help it with the tremendous volume of material. The computer enables staff to do in-depth analysis of the material and eases the administration of moving information to and from the utility. The staff now have the capacity to perform modelling exercises to assist in the review of the application.

LIBRARY AND MICROFILM SERVICES

Other services at the Board are making information more readily available to staff and to public groups participating in hearings. A new reference library includes periodicals and other current information on regulation and the natural gas industry. Previous Board cases are now in a convenient microfilm library and available to anyone wishing to research previous decisions.

PUBLIC INQUIRIES

The Board Secretary handles general inquiries on applications before the Board regarding procedural matters. Intervenors may also seek advice from the Technical Staff so that they can participate in the hearing process.



Ontario Energy Board

ORGANIZATION CHART

PUBLIC HEARINGS AT THE ONTARIO ENERGY BOARD

Public input is fundamental to every Board inquiry. Applications or references are dealt with in public hearings held at the Board offices in Toronto or at locations convenient to interested and affected parties.

Interested parties may participate in a hearing once they have filed an intervention with a brief explanation of the reasons for intervening.

APPLICATIONS, REFERENCES AND BOARD MOTIONS

The Board Secretary will schedule a hearing upon receipt of an application from a natural gas utility, a reference from the Lieutenant Governor in Council or a reference from the Ministers of Energy or Natural Resources to consider an energy-related matter Sometimes the Board will initiate a proceeding to consider a matter under its jurisdiction.

NOTICE OF HEARING

Once the application is filed and the Board has determined the scope and probable length of the hearing, all parties are notified. The Board Secretary directs the Applicant to publish and serve notice on all affected parties and interested public groups.

For major rate cases, a utility will publish announcements of its application in regional daily newspapers and personally serve notice on municipal clerks in the utility's service area. The Board Secretary will also direct the utility to notify parties of the time and place of the hearing.

ONTARIO PIPELINE COORDINATION COMMITTEE

Applications to construct a pipeline are referred immediately to the Ontario Pipeline Coordination Committee. The Committee represents a number of government ministries concerned with the impact of a construction proposal on the environment. It is chaired by a Board staff member and includes representatives from the following Ministries:

Agriculture and Food
Citizenship and Culture
Consumer and Commercial Relations
Energy
The Environment
Municipal Affairs and Housing
Natural Resources
Transportation and Communications.

The Committee sets out steps a utility must take before the application is set down for hearing. Route selection and environmental impact studies are a necessary part of pre-filed evidence and are usually reviewed by Committee members and outside consultants before being tabled as evidence in the hearing. The Committee handles inquiries from affected groups who have particular concerns about a construction project.

PRE-FILED EVIDENCE & INTERROGATORIES

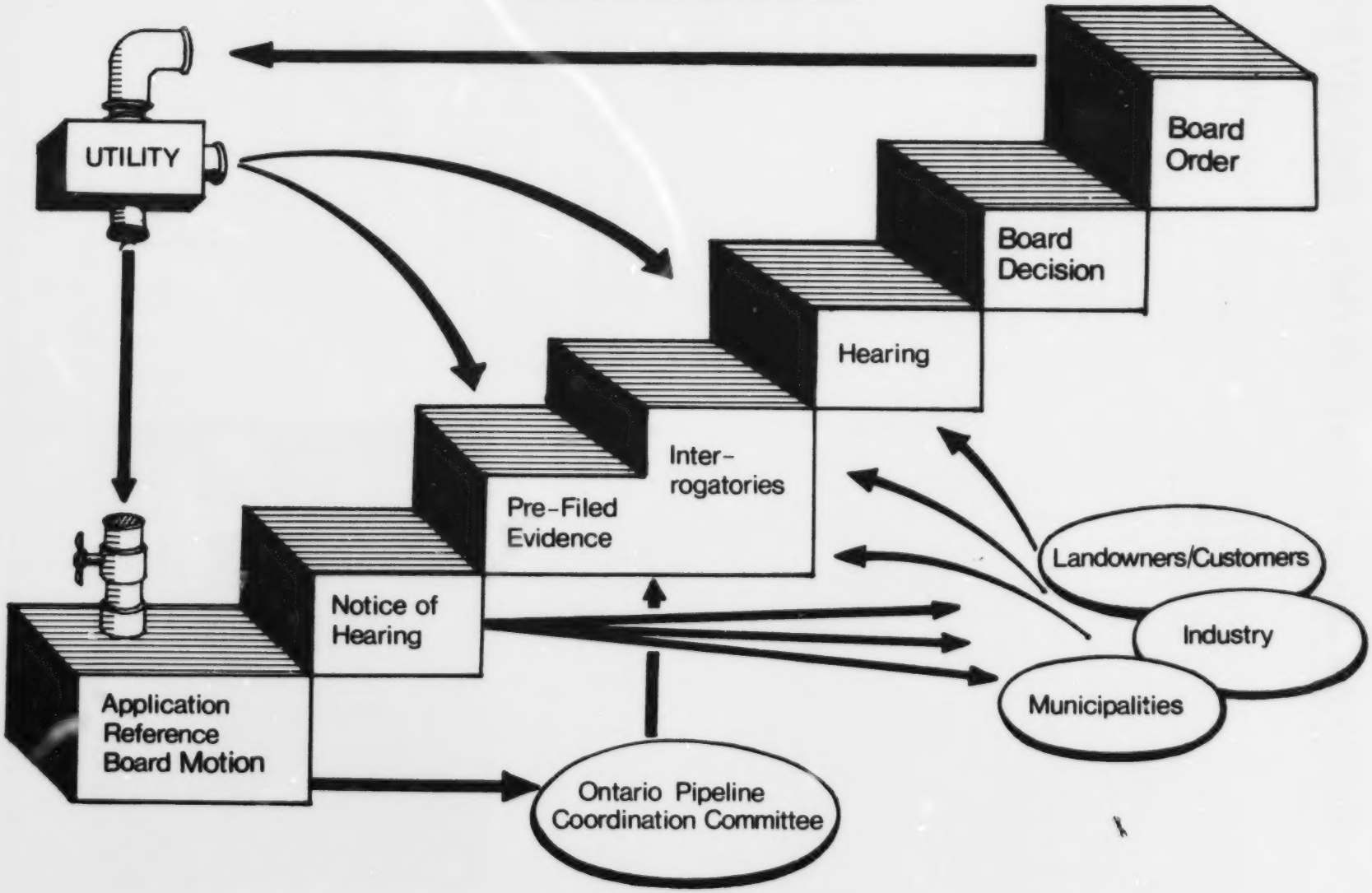
Evidence in support of an application is filed with the Board two or three months before the hearing. The Board staff or intervening parties normally seek additional information by way of interrogatories. Utilities answer interrogatories concerning the pre-filed evidence before the hearing commences.

'FIRST DAY' PROCEEDINGS

Before the main hearing commences, the Board panel reviews procedural matters, technical issues and the general approach to the hearing with interested parties. This gives everyone the opportunity to become familiar with the application and to identify all the issues they wish to address in the hearing.

THE ONTARIO ENERGY BOARD

Public Hearing Process



THE HEARING

At a hearing, the Board ensures that sufficient evidence is presented, tested and put on the record. The utility bears the onus of proving its need for the rate increase it has applied for. The Board usually hears the utility first through written evidence and witnesses who testify on its behalf. Intervenors and Board staff then question these witnesses and, to strengthen their position, may offer their own witnesses. These witnesses, in turn, may be cross-examined by the utility. The proceedings are a matter of public record and transcripts are available at the Board's office.

When all the evidence has been given, each party has an opportunity to interpret what has been presented in the form of argument which may be either written or oral. A Board decision follows and, depending on the complexity of the case, will be published a few weeks or a few months later.

BOARD DECISION

The Board summarizes its findings in either a document called "Reasons for Decision" or a "Report." All the issues and arguments raised in the hearing are discussed and dealt with in this report.

BOARD ORDER OR RECOMMENDATION

The Board Order is a legal document directing the implementation of a Board decision. The order is binding on a natural gas utility and may, in some cases, involve other parties like a municipality or an industrial customer. When the Board reaches a decision on Ontario Hydro or another energy-related matter, a Report is made to the appropriate Minister who may or may not implement the Board's recommendations.

REVIEW AND APPEALS OF BOARD ORDERS

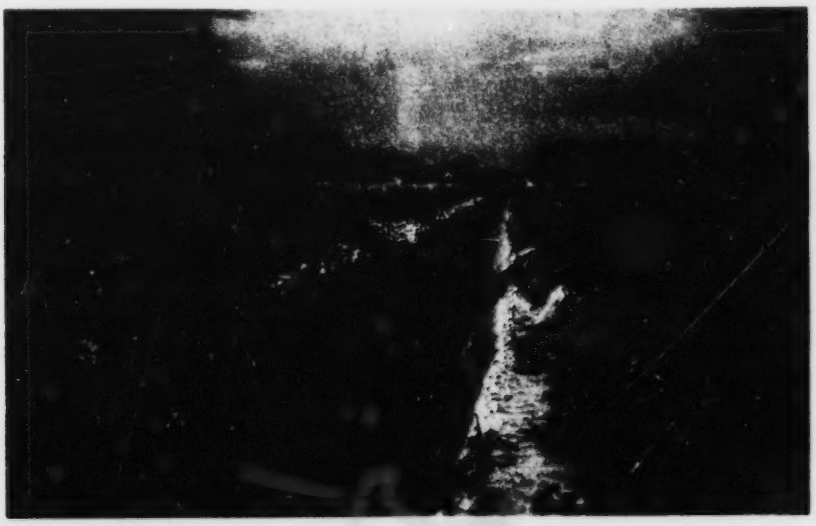
A decision of the Board may be challenged in a number of ways. Parties may apply to the Board requesting that it review or amend the order it has issued. Parties may also petition the Lieutenant Governor in Council requesting that the Board's decision be altered or reheard. A decision of the Board can also be appealed to the Divisional Court providing that it is based upon a question of law or jurisdiction.

ACTIVITIES OF THE ONTARIO ENERGY BOARD APRIL 1, 1984 TO MARCH 31, 1985

The Board dealt with 107 applications from natural gas utilities, five references from the Ministers of Energy and Natural Resources which included a review of Ontario Hydro, and a reference from the Lieutenant Governor in Council to consider the Unicorp/Union takeover.

The following table lists all the applications and references heard. Summaries of the major cases follow.

TYPE OF APPLICATION	NO. OF APPLICATIONS
Natural Gas Rate Reviews (EBRO)	3
Interim Rate Reviews (EBRO)	8
Pipeline Construction & Expropriations (EBLO)	8
Pipeline Exemptions (PL)	2
Accounting Orders (UA)	5
Franchise Approvals (EBA)	35
Certificate Approvals (EBC)	37
Permits to Drill (EBRM)	4
Other Orders (EBO)	9
Reference from the Lieutenant Governor in Council (EBRLG)	1
Reference from Minister of Energy for Ontario Hydro (HR)	1
TOTAL	113



NATURAL GAS RATE REVIEWS

Three natural gas distributors applied to the Board for annual rate increases: Northern and Central Gas Corporation Limited, Natural Resource Gas Limited and Inter-City Gas Corporation. Although the main rate application from Union Gas Limited was heard in the previous fiscal year, the case was re-opened in August 1984 to settle a security deposit matter. The Consumers' Gas Company Ltd. did not apply for an increase in rates in 1985.

Listed in the table but not described in this report are eight interim rate applications from utilities seeking minor rate increases to recover higher costs attributed in the main to higher wholesale natural gas prices.

NORTHERN AND CENTRAL GAS CORPORATION LIMITED (NORTHERN)

Northern serves approximately 140,000 customers in northwestern, northern and eastern Ontario. It distributes gas to more than 100 communities in an area extending from Kenora to points 200 miles along the shores of Lake Ontario and the St. Lawrence River.

The application was filed June 6, 1984, and after three months of preparation, was heard in September. The Board's decision was issued on December 28, 1984.

Northern projected a revenue deficiency of $7,186,600 for its 1985 test year and proposed to recover it from its fixed rate customers.

The following table shows the key financial elements of Northern's final submission and the Board's decision. The previous Board decision for the 1984 test year is shown for comparison purposes.

	EBRO 396 Previous Board Decision Dec. 28/83	EBRO 399 Final Northern Submission	EBRO 399 New Board Decision Dec. 28/84
	TEST YEAR ENDING DECEMBER 31		
	1984	1985	1985
Rate Base ($000's)	273,715.0	308,137.3	308,137.3
Utility Income ($000's)	31,683.9	37,953.9	37,953.9
Indicated Rate of Return on Rate Base	11.58%	12.32%	12.32%
Cost of Capital			
Long-term Debt	12.55%	12.86%	12.86%
Preference Shares	6.16%	6.28%	6.28%
Accumulated Tax Deferrals	3.00%	3.00%	3.00%
Common Equity	15.75%	16.50%	15.75%
Allowed Rate of Return on Rate Base	12.98%	13.46%	13.23%
Revenue Deficiency ($000's)	7,820.4	7,186.6	5,722.5

Northern has recently attempted to diversify its customer base through the introduction of aggressive sales programs aimed at residential and commercial customers. Northern proposed several changes to its rate structure, two of which were accepted by the Board.

(1) An adjustment to the residential and general service rate so that customers having similar load characteristics were treated in the same manner.

(2) An extension of the winter period rate for the interruptible industrial customers.

The Board accepted the utility's interim deficiency of $1,652,000 during the period August 1 to December 31, 1984. The resulting rate increase reflected the gas cost changes which had become effective on February 1 and August 1, 1984. These increases were collected from all firm customers in the western and northern rate zones.

NATURAL RESOURCE GAS LIMITED (NRG)

NRG is a relatively small utility serving approximately 1,750 customers in Aylmer and surrounding communities. NRG purchases its natural gas from Union, Consumers' and a number of local producers.

NRG filed its application on February 21, 1983. The question of whether NRG should pay a security deposit to Union caused a delay in a decision for its test year ending September 30, 1984. The Board approved an interim $40,000 increase in revenues to the company and the final Board's decision was issued on October 19, 1984.

The following table shows the key financial elements of NRG's final submission as well as the Board's decision. Data from the previous Board decision is shown for comparison purposes.

	EBRO 373 Previous Board Decision Aug. 31/82	EBRO 393 Final NRG Submission	EBRO 393 New Board Decision Oct. 19/84
	TEST YEAR ENDING SEPTEMBER 30		
	1982	1984	1984
Rate Base	$1,141,347	$1,623,000	$1,620,000
Utility Income	$ 78,763	$ 187,955	$ 187,634
Indicated Rate of Return on Rate Base	6.90%	11.58%	11.58%
Cost of Capital			
Debt	18.25%	13.77%	13.77%
Preference Shares	9.00%	9.00%	9.00%
Common Equity	16.50%	16.50%	16.25%
Allowed Rate of Return on Rate Base	15.92%	14.03%	13.93%
Revenue Deficiency	$ 205,879	$ 77,840	$ 77,700

INTER-CITY GAS CORPORATION (INTER-CITY)

At the time of the application, Inter-City was distributing gas to the communities of Fort Frances and Rainy River. Its largest customer in the area is Boise Cascade Canada Limited.

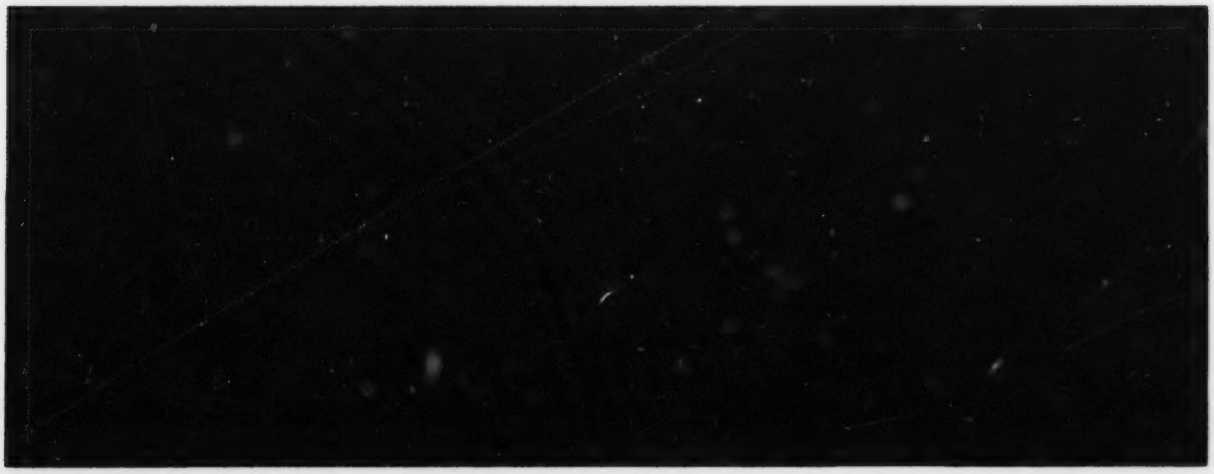
Rate increases since 1982 have been dealt with through a series of interim hearings. A main hearing, in which the Board undertook a complete review of the utility's financial status, was held on May 23, 1984.

Inter-City proposed a rate of return of 13.23% and a 2.4666 cents/mcf increase to its existing rates.

The Board decided that it would be in the customers' and shareholders' best interests to grant the 13.23% rate of return, resulting in an increase of 2.3054 cents/mcf to its rates. The Board issued its decision on June 22, 1984.

The following table summarizes the key financial elements of the rate proposal and the Board's decision. Data from the previous Board decision is shown for comparison purposes.

	EBRO 374 Previous Board Decision Apr. 29/82	EBRO 389 Final Inter-City Submission	EBRO 389 New Board Decision June 22/84
	TEST YEAR ENDING DECEMBER 31		
	1980	1984	1984
Rate Base	$1,068,116	$1,378,800	$1,357,600
Utility Income	$ 32,617	$ 139,500	$ 139,500
Indicated Rate of Return on Rate Base	3.05%	10.12%	10.28%
Cost of Capital			
Long-term Debt	9.15%	11.38%	11.38%
Common Equity	15.50%	16.00%	16.00%
Allowed Rate of Return on Rate Base	11.69%	13.23%	13.23%
Revenue Deficiency	$ 104,330	$ 85,830	$ 80,220



UNION GAS LIMITED (UNION)

Union is the second largest gas distributor in Ontario, serving approximately 490,000 customers in southwestern Ontario. Union also operates a network of pipeline, storage and compression facilities to provide service to its customers and other utilities in eastern Ontario and Quebec.

Union filed an application in September 1983 to increase rates for its 1985 test year. The Board heard the application in December 1983, January and March 1984 and re-opened the case in August to consider Union's requirement for a security deposit from Natural Resource Gas Limited, one of its wholesale customers. The utility rate increase proposal was based on a projected revenue deficiency of $25.3 million. The Board found Union's revenue deficiency to be $731,000 and no rate increase was granted.

The following table shows the key financial figures in Union's final submission and the Board's subsequent decision. The Board decision for the 1984 test year is shown for comparison.

	EBRO 388 Previous Board Decision Apr. 22/83	EBRO 397 Final Union Submission	EBRO 397 New Board Decision Apr. 24/84
	TEST YEAR ENDING MARCH 31		
	1984	1985	1985
Rate Base ($000's)	809,150	832,781	830,281
Utility Income ($000's)	85,364	95,870	105,503
Indicated Rate of Return on Rate Base	10.55%	11.51%	12.71%
Cost of Capital			
Long-term Debt	11.96%	12.01%	12.01%
Short-term Debt	10.75%	11.10%	10.50%
Preference Shares	9.90%	10.05%	10.05%
Common Equity	15.60%	16.25%	15.60%
Allowed Rate of Return on Rate Base	12.65%	13.00%	12.75%
Revenue Deficiency ($000's)	39,355	25,315	731

Certain elements of the Board's decision are listed below.

The capital budget forecast for the test year was reduced by $5 million.

Union's request to adopt incremental accounting procedures in the capitalization of overheads was denied.

Union's forecast of the cost of long-term debt was accepted and the cost rate for short-term debt was reduced to 10.5 percent.

Union proposed an increase in its deemed common equity component from 29 percent to 30 percent and an increase in the return on common equity from 15.6 percent to 16.25 percent for the test year. Both these proposals were denied.

The Board concluded that Union had not undertaken sufficient mitigation efforts to reduce or eliminate the premium costs of purchasing Synthetic Natural Gas (SNG) under its agreement with Petrosar. Continuation of the amortization of Accounts 1 and 2 was approved, but without any costs relating to Account number 3 in Union's cost of service for 1985. A refund of $14.7 million arising out of an overpayment of the Canadian Ownership Special Service Charge and the Natural Gas and Gas Liquids Tax for volumes exported to Transco since 1980 was re-allocated between Accounts 1, 2 and 3.

The Board concluded that Union should continue collecting taxes in rates on the normalized tax basis.

Rate schedules, customer classification and rate classes remained unchanged.

NATURAL GAS PIPELINE CONSTRUCTION

THE NORTH SHORE PROJECT

Northern applied to the Board on October 30, 1984, for leave to construct a 170 kilometer pipeline from Sault Ste. Marie to the communities of Blind River and Elliot Lake.

The pipeline is designed to serve Rio Algom Limited & Denison Mines in Elliot Lake and Eldorado Resources Ltd. in Blind River and the commercial and residential markets in these communities. Northern wished to commence work on rocky and swampy sections in January 1985 and to continue with major construction during the summer and fall of 1985. The Board convened a hearing in Sault Ste. Marie on December 18, 1984 and continued with hearings in January 1985.

Northern projected that the pipeline would cost $51,664,100, of which $30 million could be recovered under the Federal Department of Energy, Mines & Resources' Distribution System Expansion Program (DSEP).

There was an unusually high level of public interest in the project, particularly from landowners affected by the construction. The hearing dealt with landowner concerns about route selection, construction standards and safety, and easement agreements. The Board heard detailed evidence on procedures to clear and slash woodlands, methods to strip, trench and restore agricultural soils and to conduct wet and dry river crossings.

The Board issued its decision on January 22, 1985 with written reasons to follow. The Board concluded that the proposed pipeline was in the public interest and, subject to certain conditions, the Board granted the company leave to construct, certificates of public convenience and necessity, and franchise approvals relating to the project.

OTHER PIPELINE CONSTRUCTION

The Board received two other applications for leave to construct during the fiscal year. The Board granted permission to Union to replace pipeline in Thamesville and to Consumers' to extend a transmission line in Kemptville.

PIPELINE EXEMPTIONS

Under special circumstances, the Board may exempt a utility from obtaining permission to construct a transmission or distribution line. During the fiscal year, the Board granted exemptions to Esso Petroleum Canada for the construction of a six inch pipeline in the City of Sarnia and to Union Gas for the construction of pipeline in the Townships of Moore and Sombra.

ACCOUNTING ORDERS

Under the Ontario Energy Board Act, the Board has the authority to determine accounting procedures of gas utilities in the province. A utility wishing to adjust its accounting practices to reflect changes in its cost of natural gas, for instance, must receive Board approval. During the fiscal year, the Board issued six accounting orders to Union, Consumers' and Inter-City.

CERTIFICATES AND FRANCHISES

The Board granted 28 certificates of public convenience and approved the terms and conditions of 23 municipal franchise agreements relating to Northern's North Shore pipeline construction project.

The Board also granted eight certificates of public convenience to Union for a pipeline extension in Lambton County and approved the terms and conditions of 11 franchise agreements between Union, Consumers' and their respective municipalities.

PERMITS TO DRILL

A utility applies to the Minister of Natural Resources under the Petroleum Resources Act for permits to inject, store or remove natural gas from designated storage areas. These applications are referred to the Ontario Energy Board for review and approval. In February 1984, Union applied for permits to drill two wells in its Dawn Gas Storage Pool and three wells in its Payne Gas Storage Pool, both located in Lambton County. The Board recommended permits for these applications.

OTHER ORDERS

During the fiscal year, the Board approved storage contracts or amendments to storage contracts for Consumers', the Kingston Public Utilities Commission and TransCanada PipeLines Limited.

COST AWARDS TO HEARING PARTICIPANTS

In the interests of encouraging participation in public hearings, the Board held a generic hearing to examine its current practices of awarding costs to hearing participants.

The public hearing convened on November 20 and 21, 1984, following publication of Notice of Hearing in 43 Ontario newspapers on August 29, and a personal mailing of the Notice to all participants in Board hearings during the previous ten years.

Eighteen of the twenty-two parties who sent in written submissions in response to the Notice also participated in the hearing.

Since the hearing was intended to deal with policy options that could be applied in the future to the Board's statutory discretion to award costs, nine members of the Board sat as the panel.

This Report will be commented upon in the next Annual Report of the Board, since it was completed after the fiscal year ended.

The Board reserved its report when the hearing adjourned. The report was issued on June 12, 1985.

A reference was taken to the Supreme Court of Ontario to ascertain whether this Board has authority to grant costs which are sometimes known as "funding" prior to or during a hearing. The Court advised the Board that The Ontario Energy Board Act does not permit it to "fund" public participation, and that the Board is limited to the issuing of costs in the same fashion as a court.

APPLICATION TO ACQUIRE SHARES

INTER-CITY GAS CORPORATION, ICG RESOURCES LTD., VIGAS PROPANE LTD. AND NORCEN ENERGY RESOURCES LIMITED

Inter-City Gas Corporation ("Inter-City"), ICG Resources Ltd. ("Resources"), and Vigas Propane Ltd. ("Vigas") and Norcen Energy Resources Limited ("Norcen") filed with the Board concurrent applications. Under subsection 26 (2) of The Ontario Energy Board Act, a utility requires the approval of the Lieutenant Governor in Council for the acquisition of 20% or more of any class of shares of a natural gas utility.

Inter-City, Resources and Vigas proposed to acquire 100 percent of the common shares of Northern and Central Gas Corporation Limited ("Northern") which were at the time owned by Norcen. The agreement also proposed a simultaneous acquisition by Norcen which would result in Norcen owning 34.7 percent of the voting First Preference Shares of Inter-City. The Board heard the applications together.

The effect of the proposed transactions on the public interest was fundamental to the inquiry. The hearing addressed the question of whether or not a parent company affects a utility's cost of service and whether, in this instance, Inter-City was as strong financially as Norcen. The agreement, particularly the transfer to Inter-City of a $47.3 million note owed to Northern by Norcen, was examined to determine its impact on the general public.

Inter-City's operational and organizational plans with respect to Northern and possible conflicts of interest were also reviewed.

The Board concluded in its final report that the transaction, as proposed, was not in the public interest. The Board felt that the financial health of a parent company could affect the utility's cost of service and that Inter-City was not as strong financially as Norcen. Without certain safeguards, Northern would not be able to maintain its ability to meet commitments to its customers at a reasonable cost. The Board did recommend, however, that with the provision of a guarantee from a chartered bank for the $47.3 million note and with certain undertakings by Inter-City, the transactions be approved.

REFERENCE TO REVIEW TAKE-OVER

UNION ENTERPRISES LIMITED BY UNICORP CANADA CORPORATION

On February 1, 1985, Unicorp Canada Corporation announced an offer to purchase all of the outstanding shares of Union Enterprises Limited, the parent company of Union Gas Limited. This take-over attempt was resisted by the Directors and management of Union and there followed an acrimonious and widely publicized take-over battle. In the end Unicorp was successful in acquiring approximately 60% of the common shares of Union. These shares represented approximately 48% of the votes attached to all of Union's outstanding shares.

On February 15, 1985, following a hearing by the Ontario Securities Commission, the Lieutenant Governor in Council issued an Order requiring the Ontario Energy Board to hold a public hearing with respect to the matter. The Board was ordered to examine and report on the probable and potential impact of the acquisition on Union, its present and future customers, and energy supply in Ontario. As well the Board was asked to examine the need for, or desirability of, the public review and regulation of both the direct and indirect ownership and control, and transfers thereof, of gas distributors and transmitters in Ontario.

Without this Order-in-Council, the Board would not have had jurisdiction to enquire into this matter. The current Ontario Energy Board Act, subsection 26 (2), requires the approval of the Lieutenant Governor in Council for any acquisition of 20% or more of any class of shares of a natural gas utility but not for the possibility of a take-over or change of control of a holding company which owns or controls a natural gas utility.

The hearing commenced on March 13, 1985 to deal with a number of procedural matters. The hearing was then adjourned to April 9, 1985.

The Board issued a lengthy report to the Minister, dated August 2, 1985. This report will be commented upon in the next Annual Report of the Board since it was submitted after this fiscal year concluded.

REFERENCE TO REVIEW ONTARIO HYDRO RATE PROPOSAL

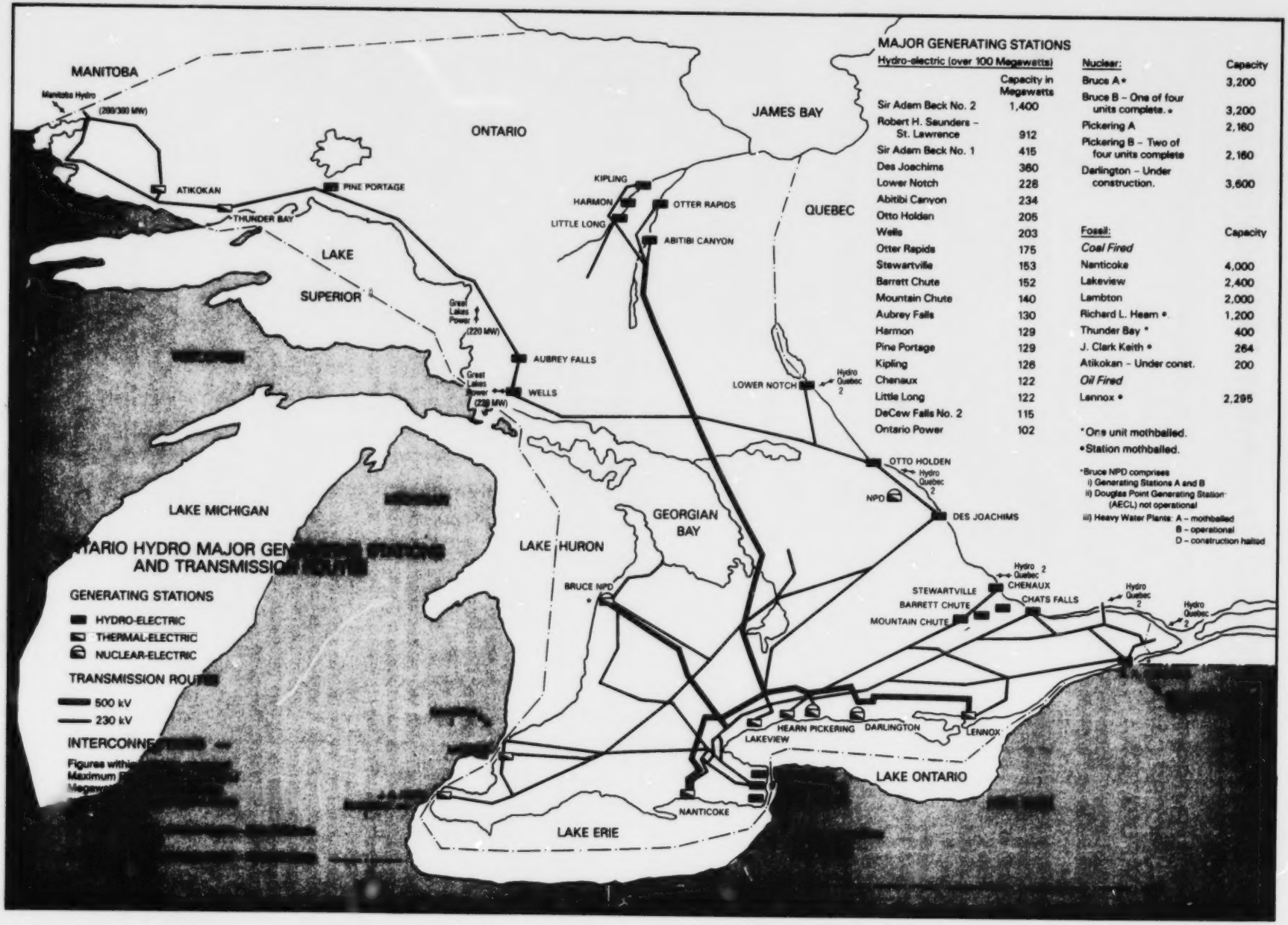
EFFECTIVE JANUARY 1, 1985

Ontario Hydro's proposal to change its rates effective January 1, 1985, was referred to the Board by the Minister of Energy on April 16, 1984.

The hearing commenced May 29 and concluded on June 29, 1984. The Board reported to the Minister of Energy on August 30, 1984.

Hydro originally proposed an average all customer rate increase of 9.1 percent. This increase was based on a revenue requirement for 1985 of $4,186 million, an increase of $474 million over the level of revenue expected in 1984. The revenue requirement included a provision for net income of $360 million. Adjustments made to the revenue requirement during the hearing affected the net income and rate increase figures. The net income would be reduced to $308 million if the 9.1 percent increase was implemented. If the net income was left at the proposed level of $360 million, an average rate increase of 10.3 percent would be required.

In its Report to the Minister, the Board recommended that the proposed 1985 revenue requirement be reduced by $71 million, thereby lowering Hydro's average rate increase to 8.6 percent.



MAJOR GENERATING STATIONS

Hydro-electric (over 100 Megawatts)

	Capacity in Megawatts
Sir Adam Beck No. 2	1,400
Robert H. Saunders – St. Lawrence	912
Sir Adam Beck No. 1	415
Des Joachims	360
Lower Notch	228
Abitibi Canyon	234
Otto Holden	205
Wells	203
Otter Rapids	175
Stewartville	153
Barrett Chute	152
Mountain Chute	140
Aubrey Falls	130
Harmon	129
Pine Portage	129
Kipling	126
Chenaux	122
Little Long	122
DeCew Falls No. 2	115
Ontario Power	102

Nuclear:	Capacity
Bruce A •	3,200
Bruce B – One of four units complete. •	3,200
Pickering A	2,160
Pickering B – Two of four units complete	2,160
Darlington – Under construction.	3,600

Fossil:	Capacity
Coal Fired	
Nanticoke	4,000
Lakeview	2,400
Lambton	2,000
Richard L. Hearn •	1,200
Thunder Bay *	400
J. Clark Keith •	264
Atikokan – Under const.	200
Oil Fired	
Lennox •	2,295

*One unit mothballed.

•Station mothballed.

*Bruce NPD comprises
i) Generating Stations A and B
ii) Douglas Point Generating Station (AECL) not operational
iii) Heavy Water Plants: A – mothballed
B – operational
D – construction halted